

Sales & Marketing Update

13th Edition December 2004

Welcome to the new-look TOWER Sales & Marketing Update

We have re-vamped the Sales & Marketing Update to include even more information for you and your business including quarterly articles from small business specialist Peter Switzer, as well as Market Updates and even more risk and super sales strategies to use when building your business.

We hope that you enjoy our new-look newsletter and wish you and your family all the very best for the festive season.



TOWER would like to wish you all the very best for the Festive Season

[Find out more](#)



Meet Peter Switzer – Australia's foremost expert on Small Business and author of Switz's Tips

Switz's Tips is a new column that will feature quarterly in the Sales & Marketing Update. Written by Peter Switzer, an expert on business in Australia, Switz's Tips will provide information and ideas on how to improve your business practice.

[Find out more](#)



Booting Home a Business Winner | By Peter Switzer

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Market Update | By Guy Hutchings – TOWER Australia, Chief Investment Officer

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[Find out more](#)

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Hello everyone

Christmas and the New Year are fast approaching and this is a good opportunity for me to thank you for your support of TOWER over the past 12 months and for the working relationship we have enjoyed with many of you during that time.

I hope you have had a productive and profitable year.

2004 was always going to be a year of challenge especially with FSR coming in. By year end the shortcomings for consumers around disclosure had been widely discussed. In 2005 we expect to see some change and must keep pressing for further sensible alterations that make FSR disclosure more meaningful and of value to consumers.

It is unfortunate but if some of the disclosure requirements stand in their current form one of the most important parts of FSR will become a failure in practice.

Consumers pay the cost of FSR in the longer term and it is important this legislation benefits them in real terms. It is a case of substance vs form where the substance of disclosure must play a larger part as form of disclosure is reconsidered.

Part of the cost carried by consumers is in lower adviser productivity just from the weight of paper preparation. Hopefully, this will change in 2005 and productivity will increase.

If not, the best 2005 hedge might be to buy into timber or paper production investments.

However, on this issue I'm sure logic will prevail.

A real positive this year has been the major focus of adviser organisations and product companies on steps to lift further the quality of advice around both risk and investment needs and solutions. We have a strong advisory industry and TOWER will continue to promote education and lifting of skills.

We want to work with our advisers to help them be more successful. You are our core business partners and we value our relationships with you.

In the market, the year has generally seen very good

investment returns and most clients will feel positive about that. For financial security providers the dampening in the residential property sector was also good news and investors will be more positive about financial assets playing a large part in their portfolios.

For TOWER Australia Limited, the past year one of building after a year of change in 2003.

We were pleased with the 2004 year end results for TOWER Australia Ltd. The relationships and support of advisers was a key to us delivering on our goals. Thank you for that support once again.

The key highlights for us were

- We delivered a profit of \$20.5m against a loss of \$13.1m in 2003
- Our Risk sales were 28% higher than 2003
- Our management costs were 26.4% lower than 2003
- Both Risk and Investment Lapses were down on the previous year with risk approximately 16% better and investment about 18% better
- The Appraisal Valuation of the business increased by 15.7% over the year adjusting for the dividends we paid during the year. This was an increase of \$68m over the year, a good return for investors in TOWER.

However, the best result for me has been the commitment of our staff team and the building of adviser relationships.

The TOWER team is a real strength. I am very proud of them. We have a positive, very skilled and energised team. They have delivered a great deal more in an environment of lower costs. The spirit is good and we are very determined to continue our progress in 2005. They see us, and the industry, going forward.

By the 2004 year end TOWER Australia Limited is a strong competitive business with very good underlying momentum.

Some other highlights in the year gone for me have been winning the Silver Award as Runner up in the Personal Investor Life Company of the Year and winning the Gold Award for the best Trauma product in 2004.



Jim Minto
TOWER Australia
Chief Executive Officer

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| TOWER – looking at industry changes (Cont) |

For us at TOWER, early 2005 will see the completion of the spin-off of the Bridges and TOWER Trust assets into a new company called Australian Wealth Management. That company will then be separately listed on the Australian Stock Exchange.

This does not mean that TOWER Australia Limited is out of the investment product market.

For us the strategic focus will continue to be on strongly building our position as a risk specialist and we will continue to provide niche quality related investment solutions through our 100% owned subsidiary Beacon and through TOWER Australia Limited itself.

2005 is an exciting prospect. We will be looking to continue our strong growth and deliver real value for our clients, advisers, staff and of course shareholders.

The cornerstone once again will be relationships with advisers and we look forward to renewing and extending those.

From all the team at TOWER I am delighted to wish each of you and all those close to you all the very best for the Festive Season. We also would like you to have a very successful and prosperous 2005 in both personal and financial senses.

Thank you again from all the team at TOWER

Best wishes



Jim Minto
Chief Executive Officer,
TOWER Australia Limited

| Meet Peter Switzer |

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– Australia’s foremost expert on Small Business and author of Switz’s Tips

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Written by Peter Switzer, an expert on business in Australia, Switz’s Tips will provide information and ideas on how to improve your business practice.

Peter is the country’s foremost expert on the best businesses in Australia. He is the small business editor for The Australian newspaper and author of the book *350 Ways To Grow Your Small Business*, a local business best seller that has also been translated for the Chinese market.

Peter was a former lecturer in Economics at the University of New South Wales and has a special interest in personal investment education. He is the host of Talking Business for the Qantas “on air” in-flight service Radio Q and is the money, business and economics commentator for Sydney’s ABC radio station 702 and 2UE.

Peter is a best-selling author with his *GST:*

Your Questions Answered selling over 120,000 copies. He also has written two top selling money books – *Beating Debt and Increasing Wealth* and *SHARES: Your Questions Answered*.

Peter has written for major metropolitan newspapers since 1985 and has been a prominent radio commentator with the Triple M and the Australian Radio Networks. He has twice been a runner up in the Best Current Affairs Commentator award for the radio industry behind Alan Jones.

With a wealth of experience behind him, Peter’s regular columns will provide you with practical and easy-to-implement solutions for your business.



Peter Switzer

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Booting Home a Business Winner

By Peter Switzer

As I wrote my book *350 Ways to Grow Your Small Business*, Harper Collins, the publisher, gave me a tip that books with numbers in their title sell better than those that don't. I saw it as inside information in an area where I didn't have strength — book titles.

The tip made me analyse my 78 case studies of award winning businesses in Australia to see what gave them an edge, and I was shocked when I came up with the number 350! It told me you can never be complacent in business and that you always have to be on the lookout for innovations that put you ahead of your rivals.

Let me quickly run through the characteristics that came up time and time again in great businesses.

1. **Know your competitive edge**
This is your point of difference to give market cut through and to give the basis of growth.
2. **Believe in yourself totally**
Like sporting teams, doubt at the top spreads throughout an organisation. Talk up the troops to pull off Churchillian type victories.
3. **Use experts to beat weak points**
Even the nation's top CEOs are using people like business coaches, life coaches and mentors to help them with their weak spots.
4. **Work on your strengths**
Once we talked about doing SWOT – strengths, weaknesses, opportunities and threats – analyses on our businesses, but now smart leaders are even doing it on themselves and their key personnel.
5. **Know your rivals' weaknesses**
Business opportunities can be created by being aware of what your rivals 'don't get'. Great sporting coaches create game plans not only on their team's strengths but their opponent's weaknesses.
6. **Measure your performance regularly**
The old saying applies that if you can't measure it, you can't manage it.
7. **Set goals and review them**
This not only tells you something about your progress, it helps the sharing of your vision with staff and other stakeholders.

8. **Know your market and your position**
This is a reality check and sets the sights for plans for growth.
 9. **Use a marketing plan to grow your competitive edge**
At the core of great, well-known businesses are enlightened marketing plans. This tells you where you are in the market, where you want to be and how you are going to do it.
 10. **Be the best at customer service & seek feedback**
All great businesses know how important this one is to overall success. Seek customer feedback and learn how to cop your customer's views on you, even if you don't agree.
 11. **Never stop networking**
Turn up and give more than your business cards to those who turn up.
 12. **Share your competitive vision**
Don't only share it with your staff but even your suppliers. They can become advocates.
 13. **Celebrate your victories and learn from your losses**
That's a tip I picked up from GE's boss Jack Welch described as the CEO of the 20th century.
 14. **Be a quick adopter of technology**
This gives you an edge — no question.
 15. **Implement systems**
This not only makes your business life more enjoyable but it helps when you want to sell your business.
 16. **Be a coach**
Have a business plan like a sporting coach, fire up your team but really try to understand them to get the best out of them.
- My publisher gave me one tip about numbers. Here's an extra 16 for you to help improve your competitive play.

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Strategy Watch |

– How to receive a 150% return on a superannuation contribution

By Carly O'Keefe

In July 2003 the Government Co-contribution was introduced to encourage individuals to personally contribute to their superannuation with the aim of increasing superannuation savings for retirement.

The scheme rewards low to middle income earners for making a personal contribution to superannuation. Generally, for every \$1 an individual personally contributes to superannuation the Government will pay \$1.50 to their superannuation fund, up to a maximum of \$1,500.

To receive an amount equivalent to the co-contribution, an individual would need a return of 150% on a \$1,000 investment, which can be agreed is extremely difficult to achieve. Alternatively, an individual would need to invest the \$1,000 contribution for approximately 12 years to derive an additional \$1,500[^]. However, for individuals who are entitled to the co-contribution, they will receive \$1,500 for simply personally contributing \$1,000 to superannuation.

This article outlines the eligibility requirements for the co-contribution and demonstrates how it works in practice. In addition, it highlights how individuals with assessable income and reportable fringe benefits of \$58,000 or more can qualify for the co-contribution.

To be eligible for the co-contribution, individuals must meet all of the following criteria:

- They make personal contributions (where a tax deduction is not being claimed);
- Their total income (assessable income and reportable fringe benefits) is less than \$58,000;
- They lodge an income tax return for the year of income;
- They are less than 71 years old at the end of the year of income; and
- 10% or more of their total income is from eligible employment.

For individuals to receive the maximum co-contribution, their assessable income and reportable fringe benefits must not exceed \$28,000. The maximum amount of the co-contribution (ie \$1,500) reduces by 5 cents

for every dollar of assessable income and reportable fringe benefits that exceed the \$28,000 limit, until it cuts out completely when an individual's assessable income and reportable fringe benefits reaches \$58,000.

When determining the actual co-contribution that an individual can receive, it is based on the lesser of:

- a. the maximum superannuation co-contribution amount; or
- b. the amount of the personal superannuation contribution x 1.5.

Example

Sandra aged 27, is a fulltime teacher who has assessable income and reportable fringe benefits of \$45,000. If she makes a personal contribution to superannuation of \$1,000 she will be eligible to receive a co-contribution valued at the lesser of:

- a. maximum superannuation co-contribution amount
 $\$1,500 - (0.05 \times (\$45,000 - \$28,000))$
 = \$650

OR

- b. her personal superannuation contribution x 1.5
 $\$1,000 \times 1.5$
 = \$1,500

Therefore Sandra is entitled to a \$650 co-contribution.

In this situation, Sandra would not be required to contribute the full \$1,000 to receive the maximum allowable co-contribution as she would be eligible to receive the same co-contribution (ie \$650) for contributing \$450 as shown below.

- a. $\$1,500 - (0.05 \times (\$45,000 - \$28,000))$
 = \$650

OR

- b. $\$450 \times 1.5$
 = \$675



Carly O'Keefe

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Strategy Watch (Cont)

For individuals that have assessable income and reportable fringe benefits that equal or exceed \$58,000, they may be eligible to receive the co-contribution by entering into an effective salary sacrifice agreement with their employer.

Salary sacrifice can involve forgoing future gross salary and wages to receive employer superannuation contributions.

Example

Paul, aged 32, is a fulltime clerk who has total income (ie assessable income and reportable fringe benefits) of \$59,000, which excludes him from being eligible to receive the co-contribution.

His adviser has recommended that he salary sacrifice \$10,000 of his salary into superannuation to qualify for the co-contribution. Paul accepts the recommendation as his wife Tina receives a generous salary that has quite a substantial surplus.

As a result of salary sacrificing, he is eligible for a co-contribution when he makes a personal contribution of \$1,000 to superannuation.

In the following table, Option A illustrates how Paul will benefit from adopting this strategy compared to not employing this salary sacrifice strategy but still making a personal contribution of \$1,000 to superannuation (Option B). In addition, it also compares how he would benefit if he only salary sacrificed \$1,000 (Option C).

	Option A ¹	Option B ²	Option C ³
Taxable Income	\$49,000	\$59,000	\$58,000
Tax on Taxable Income*	(\$10,872)	(\$14,712)	(\$14,292)
Salary Sacrifice	\$10,000	NIL	\$1,000
Contributions Tax	(\$1,500)	NIL	(\$150)
Personal Contribution	\$1,000	\$1,000	NIL
Co-contribution	\$450	NIL	NIL
Net benefit	\$47,078	\$44,288	\$44,558

Based on this comparison, the first option where Paul salary sacrifices (and qualifies for the co-contribution) and makes a personal contribution to superannuation delivers the highest net benefit.

* This does not include Medicare Levy.

¹ Utilise a salary sacrifice strategy to qualify for the co-contribution.

² Make a \$1,000 personal contribution to superannuation without salary sacrificing.

³ Salary sacrifice \$1,000 to superannuation.

In this situation, the amount that is salary sacrificed does not count towards assessable income or reportable fringe benefits which may result in an individual being eligible for the co-contribution, as their total income is reduced.

Before adopting this strategy, the client's cash flow situation should be carefully assessed to gauge how much they can afford to salary sacrifice. In addition, the client should be aware that the personal contribution and the co-contribution will be preserved and will be accessible only if a condition of release is met.

Who are your target clients?

- Individuals (aged less than 71 at the end of the year of income) with assessable income and reportable fringe benefits of less than \$58,000 who derive 10% or more of their total income from eligible employment.
- Individuals (aged less than 71 at the end of the year of income) who can salary sacrifice to reduce their assessable income and reportable fringe benefits to less than \$58,000.
- Part time and casual employees (aged less than 71 at the end of the year of income) with assessable income and reportable fringe benefits of less than \$58,000 who derive 10% or more of their total income from eligible employment.

What are your opportunities?

- Contact clients who meet the target audience specifications and discuss the need to accumulate superannuation for retirement.
- Compare the rate of the aged pension to the amount the client wishes to receive in retirement.
- Calculate how much benefit the co-contribution will give the client in retirement.
- Express the value of the co-contribution by explaining the type of growth required to generate a \$1,500 return on an initial \$1,000 contribution.

This is just one superannuation strategy that can be used to obtain more superannuation benefits for your clients.

If you would like this Strategy Watch flyer or others that outline alternative strategy's please contact your Sales Manager in your State. Also, be sure to ask for our sample client letters that match each respective strategy.

[^] Assumes an account balance of \$1,000 and a compound return of 8% each year for 12 years.

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Market Update

By Guy Hutchings – TOWER Australia, Chief Investment Officer

It was a “vintage” year on the local stock market with shares up 21.7% and listed property up 29% for the 12 months ended 30 September. The last quarter saw shares and listed property returning over 5.5%.

Small capitalisation stocks performed very strongly, up 10.6% for the quarter and 20.6% for the year, reflecting solid economic conditions and a greater risk appetite of many investors.

Investor sentiment appears to remain strong pushing some markets to record highs despite significant overseas uncertainties caused by rising US interest rates and hefty increases in the global oil price. At home the issues which should have weighed on the market were record trade deficits and high consumer debt levels.

But the local share market was also boosted by a strong company profit reporting season which produced few negative surprises. In fact, the season appeared to have been highlighted by cash return news – high dividends, special dividends and buybacks

Investor and market sentiment may also have been pushed up by commodity price strength, especially for copper and gold.

Also a plus for the market has been merger and takeover activity which has continued at relatively high levels.

Of interest has been a strong flow of funds from property assets to other asset classes as forecast property growth was revised down.

Overall, there seems to be a growing consensus that while the domestic economy is strong and performing well, it is not over-extended to the point that the Reserve Bank will raise rates imminently.

However, it is always wise to be a bit cautious when it comes to expectations the rally will continue long term. However, economic indicators released in the September Quarter mostly back up the upbeat trend of 2004 in all major centres.

Optimism has been growing in the somewhat subdued economies of Europe based on a belief that economic

growth will be sustained by an upswing in the US economy. Investors are concerned that inflation may reappear more quickly than policy-makers had anticipated, due to higher oil prices, an rise in labour demand, resilient consumer spending and a persistent trade deficit however, more recent news flow has painted a relatively benign picture.

In contrast to Australia, overseas markets had quite varied performances over the September quarter reflecting those concerns and uncertainty over the US election.

Locally, the MSCI World Share Index fell 1.0% in foreign currency terms and as the Australian dollar rallied a return of -4.3% when converted to A\$ was achieved. The US and European markets were soft, falling over 2.5% and the Japanese market fell sharply, down 8.7%.

The US and China remain the global engines of growth, with the former moving into a more mature phase of its economic recovery and the latter possibly becoming a victim of its own success.

Although bottlenecks in the US industrial sector and consequent rising inflation have yet to appear, they will come so the Federal Reserve has started to raise cash rates. A second 0.25% rise in interest rates is fully factored into market pricing for later in the year, along with similar rises periodically to the end of 2005.

As 2004 ends, investors may pause to catch their breath before thinking of the next – 2005. So, while the local market is holding up well valuations based on consensus forecasts are pretty full and will require continued high levels of growth to be justified.

Indeed, with the A\$ strength continuing, the time may be approaching where investors could see better relative value in international markets.



Guy Hutchings